



Treasury Trends

Bringing currency to the Arizona Taxpayer

David A. Petersen, State Treasurer

April 2004

Volume 2, Number 4

This month's
definition ---

Character:

*The qualities built
into an individual's
life that determine
his or her response,
regardless of
circumstances*

*Both LGIP Pools
continue to
outperform their
benchmarks in
March 2004*

NCFE

*Bankruptcy plan
approved,
pending appeals*

LGIP Performance

The Board of Investment, in the regular meeting held on April 21, 2004, was informed of the performance of the LGIP and LGIP-Gov pools. Both pools continued to outperform their benchmarks. Balances of the pools also remained relatively stable for the month.

Yields		LGIP	LGIP Index	Diff	LGIP-GOV	3 mo. T-Bill	Diff
Pool size →		\$2.3 B			\$1.2 B		
January	'04	1.41	.85	+56	.98	.89	+09
Feb	'04	1.44	.85	+59	1.00	.93	+07
March	'04	1.39	.84	+55	1.01	.95	+06
April	'03	1.62	1.06	+56	1.18	1.14	+04
May	'03	1.73	1.03	+70	1.21	1.08	+13
June	'03	1.88	.99	+89	1.54	.93	+61
July	'03	1.58	.85	+73	1.44	.90	+54
August	'03	1.51	.83	+68	.97	.96	+01
September	'03	1.48	.83	+65	.97	.95	+02
October	'03	1.43	.83	+60	.97	.93	+04
November	'03	1.43	.85	+58	.99	.94	+05
December	'03	1.44	.88	+56	.98	.90	+08

National Perspective (NCFE News)

In a presentation to the Association of Government Accountants on April 16, 2004, it was announced the bankruptcy plan for NCFE was approved earlier that day. It was also reported there would be a ten-day appeal period. Under the bankruptcy plan, there was no provision for the equity holders to receive any cash payment. Therefore, the AGA group was told to expect appeals. Subsequently, at least 10 appeals were filed. What does this mean? So far, the appeals haven't stopped the bankruptcy process from moving forward. However, it is possible any monies received pursuant to the bankruptcy plan are "contingent" upon the **failure** of the appeals. *If the appeals are successful, the bankruptcy court could order the return of funds distributed under the bankruptcy plan.* The Treasurer's Office is currently working with legal counsel to evaluate the impact of this situation. We are developing procedures to distribute recovered funds to participants as quickly as possible, once "contingent" payments are not subject to recall by the courts.

*On-line banking
more than
internet
accessibility*

*Rates going
Up, Up
And Away?*

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LGIP-ONLINE

The AGA presentation on April 16, 2004 gave Linda Willis, Treasury investment accounting manager, the opportunity to update LGIP participants on the progress towards LGIP-Online or IPAS (Internet Participant Access System). The upgrade of our accounting software (QED) to the new Q2 system is complete and occurred with only minor glitches. This was important because Q2 is the platform from which IPAS will function.

For the benefit of anyone contemplating an e-banking project, Ms. Willis elaborated on some of the factors involved. The list of tasks include: developing on-line banking policies, internal/external risk assessments, reviewing internal controls, restructuring internal procedures, verifying compliance with applicable laws, disaster recovery and business continuity planning. All-in-all, a fascinating and challenging process.

Within a matter of months, the external beta testing may be able to begin. Ms. Willis requested a volunteer or two for the beta testing. If you are willing to participate in that process, please contact her at (602) 542-2321. We are looking at a timeframe which will give the Treasurer's Office and local governments the opportunity to complete fiscal year-end processes before the roll-out occurs.

Yields on the Rise

Portfolio managers in the Treasurer's Office have been preparing for increasing interest rates for many months. We have been criticized, by some, for consistently reducing our Weighted Average Maturities in the Local Government Pools. However, the economy appears to have finally reached a point where job growth and corporate profits are starting to pick up. This traditionally results in higher interest rates. Yields started rising all along the maturity curve this past month. The smallest amount of rise is in the ultra-short end of the curve. The curve really starts getting steep in the 1 year area. This has given us the opportunity to invest in some securities at some higher yields. We have, however, kept "some of our powder dry." We don't think the rise in interest rates is over. We will be "slicing and dicing" into the market at strategic yield and maturity points that make sense for our pools. We are happy to discuss our investment strategy with LGIP participants, if you have any questions.

Yield Curve Perspective

Treasury Yield Curve				
Term	29 APR	1 Week Earlier	1 Month Earlier	1 Year Earlier
3 mo.	.97	.95	.94	1.13
6 mo.	1.13	.99	.94	1.17
2 yr.	2.35	2.11	1.61	1.61
3 yr.	2.79	2.57	1.99	N/A
5 yr.	3.65	3.46	2.84	2.86
10 yr.	4.53	4.38	3.89	3.93
30 yr.	5.30	5.19	4.81	4.84